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Counting the development costs of the conflict in North-Eastern Nigeria: the economic impact of the Boko Haram-led insurgency

“Many in the south of the country feel that the threat of Boko Haram, whilst unfortunate, is confined to the north. The economic divide between the two regions, if superficial before, is now very much entrenched”.

BBC News March 27 2015¹

Introduction

Nigeria presents a conundrum for reflections on the interaction between economic emergence and security not least on account of the Boko Haram- led insurgency. In 2014, Nigeria’s ascension as Africa’s largest economy following its statistical rebasing of GDP assessment was accompanied by reflections on the fundamental dysfunction evidenced by rising luxury consumption and devastation in the North-East.² This case offers an opportunity to interrogate longstanding theoretical assumptions about the economic consequences of violent conflict in such a complex space.

Since 2009, the militant group who identify as Jama’atu Ahlis-Sunnah Lidda’awati Wal Jihad, and is known widely as Boko Haram, has claimed responsibility for various attacks on civilians, security personnel and infrastructure including schools, health facilities, security establishments, among others in North-Eastern Nigeria. One of its most prominent early attacks was in Bauchi city over 25-30 July 2009 with reported fatalities of over 1118 people in this period.³ The conflict has been characterised by a forthright challenge to Nigeria’s statehood with periods of widespread loss of territory and continuous undermining of the military. Much focus has been on the violence wreaked by the Group, however, the conflict is defined also by extra-judicial violence deployed by state security actors and associated bodies against civilians in affected communities.⁴ There are various threads of thought around the Group’s motivations including: opposition to Western influences, political agitation against a corrupt political elite, income disparities and poverty, structural violence, religious fundamentalism and coopting by global violent extremist groups.⁵ The Group is culpable for violent acts that led to the highest number of deaths amongst civilians, numbering 6664, in attacks by violent extremists in 2014.⁶

The focus on Nigeria evidences the significance of case study research design as a methodological approach that privileges contextual complexity across historical, geographical, political and economic spheres. In particular, it is possible to draw attention to the frailties in the process of establishing lines of causality from violent conflict to particular developmental outcomes. Focus on this multifaceted terrain highlights the importance of structural factors that underlie socioeconomic conditions thus influencing expectations on the conflict-development trajectory. A key factor in this case is the longstanding structural inequality between Northern and Southern Nigeria. There are enduring disparities across a range of development indicators such as literacy and poverty headcount. In 2013 literacy was at 36% for women, 65% for men in the North and 82% for women and 91% for men in the South. In the same year, poverty headcount was at 42.4% in the North and 23% in the South.⁷

In essence this paper reconsiders established understandings of how insecurity can impact on development particularly ‘non-security’ elements with a focus on the economy.⁸ It thus builds on the work of Fukuda-Parr et al in providing a critical examination of the impact of violent conflict with attention to the ways in which economic outcomes can and do negate established assumptions, particularly with spatial variations.⁹ This paper presents original analysis that examines robustly the cost of North-East Nigeria’s conflict on development by considering interactions with the economy at the national and subnational levels. The review of the developmental consequences of conflict concerns a broader remit than economic development. However, this paper gives special focus to economic developmental impact because of the contemporaneity of the conflict. It is especially difficult to assess the social and human capital costs associated with violent conflict in the shorter term.¹⁰

Assessing the consequences of conflict raises serious challenges. Stewart highlights the methodological problems that are linked to establishing counterfactuals as well as the particularity of developing contexts that are often subjected to competing exogenous challenges such as debt crises.¹¹ She suggests these might be mitigated to a limited degree by comparative studies. However, this approach can undermine the peculiarities that define conflict contexts across space, time and indeed issue. Cramer underscores this need for case-study approaches because conflicts differ immensely in intensity, geographical spread, duration among a range of critical factors that will define their impacts.¹² This paper carries out its analysis based on secondary data drawn from national and international sources at the level of the national economy. At the level of the subnational economy it uses primary data drawn from fieldwork undertaken in 2014 and 2015, as part of the United Nations Economic Commission for Africa study on the Sahel region, alongside secondary data from national and international sources.¹³

This paper provides a new and detailed interpretation of the economic consequences of conflict at national and subnational levels in a significant and topical terrain. Cramer argues that the key challenge with cost of war exercises is the tendency to assume that these are static contexts where it is possible to identify variables for measuring loss.¹⁴ This paper challenges these tendencies to linearity, particularly at the aggregate level. It does so by problematising established thinking on the consequences of conflict with a multifaceted examination of development outcomes that is cognisant of ongoing dynamics in the wider economy. Luckham et al have long noted that insufficient attention is given to the intra-national variations in the impact of conflict.¹⁵ This paper addresses this gap in its reflection on impacts at the national and subnational level. The approaches and arguments proffered provide a valuable starting point for interrogating other spaces. This is especially due to a focus on privileging particularities alongside robust examination of established patterns of understanding conflict-development trajectories. To this end the paper analyses how the Boko Haram-led conflict may or may not have shaped economic developmental outcomes at national and subnational levels over the period of 2009-2017.

The paper has five parts. Following this introduction, the second section reflects on the debates that have driven thinking on the analyses of developmental consequences of conflict and how these inform analysis of the country case across national and subnational levels. The third section of the paper undertakes a discussion on the Nigeria case with consideration of the developmental consequences of conflict across

periods. The fourth section examines classical arguments on the macro level impact of conflict vis-à-vis empirical realities in the Nigerian economy, using secondary data. The fifth section considers the developmental impact of conflict at the level of the subnational economy with examination of primary and secondary data. The final section concludes the paper. It finds that while evidence suggests a dichotomy in terms of the impact of the conflict at the national and subnational levels of the economy, there remains a degree of interconnectedness across these strata that is influenced by both domestic and international political economy dynamics.

Debates on analysing the developmental consequences of conflict

Comprehending the causes and impacts of violent conflict has been a central driver towards a level of interdisciplinarity across the fields of security and development. Cramer notes the, initially tentative and later assertive, foray of development economics into conflict studies.¹⁶ In spite of some methodological tensions between orthodox liberal economics and political economy approaches, he acknowledges the advances that have been underscored by the value of such interdisciplinarity.

To be sure there are attendant concerns with privileging economic issues that risk reinforcing economic determinism in analyses of conflict-affected contexts. It is thus important to consider the economic impact of conflict as closely intertwined with the social and political factors that attend the occurrence of civil conflict. Francis has argued that conflict (and its associated economic costs) is imbued with social, cultural and historical factors that have been refined by domestic and international politics.¹⁷ Although this paper focuses on economic concerns, it does so cognisant of the challenges that this presents particularly in accounting for how the social, political and economic spheres are defined, and sustained by one another.

Along these lines, interactions between climate variability, conflict and socioeconomic outcomes are an important consideration for the study. In the North-East links have been made between climate variability, economic development fallouts and the occurrence of conflict. The United Nations draws attention to the connections across ‘underdevelopment, poor governance and poverty’ with climate change vis-à-vis the desertification of Lake Chad as an element in both the cause of and response to the conflict.¹⁸

Drawing on field research, Nwokeoma and Chinedu find links across climate variability, declines in agricultural production, insurgent activities and wider criminality in the North-East.¹⁹ These links are emphasised in the dis-incentivisation of young people’s engagement with agricultural activity due to adverse effects of climate change such as loss of farmland, upsurges in crop diseases and pests and reduced access to water. These can be viewed as ways through which the impact of climate change on conflict may undermine reconstruction and the rebuilding of the agricultural sector. It is however important to see these factors as part of a context that is complex and dynamic across time and issue.²⁰ This lens is important for understanding the complexity of attributing causality along the conflict-development trajectory in analysis of the conflict-affected agricultural sector in the North-East.

Analyses of the economic impact of conflict tend to focus on aggregate national level dynamics.²¹ Yet the complexity of the types of conflict, i.e. interstate or intrastate, as well as the targets of violence are factors that are definitive to the ways in which reverberations are felt at national and indeed subnational levels. For instance, Addison et al chronicle how different types of conflict lead to varied impacts on the financial sector in national and subnational contexts. This is key to the paper's analysis of the disaggregated impact of conflict on development.

Focus on the national level may limit the analysis of conflict contexts in other ways also. It risks disaggregation from the complex global political economy. Yet dynamics in that space impinge extensively upon the domestic sphere. Mustapha argues that the conflict in the North-East has been fueled in part by the region's disadvantage vis-à-vis the South on account of key global development policy regimes that have advocated a reduced role for the public sector thus undermining its dominant small-scale agricultural sector.²² Willett shows that the interactions between conflict and development outcomes must be situated within these realities.²³ This is a critical argument that challenges the tendency to underplay the global dynamics that inform the pre-conflict economic conditions that integrate unequally the developing world into the global economy. In turn, these structure the ways in which conflict impacts negatively on economic developmental outcomes. In the end the risk is that attempts at reconstruction do not engage sufficiently the subjugation of the periphery to the powers of global capital at the core. This perspective is important for analysing the relative impact of the conflict at national and subnational levels of the economy.

On the theme of the positionality of Africa within the global political economy, Zeleza' draws on historicisation as significant for grasping the ways in which the developmental costs of conflict are systemically embedded across conflict periods in Africa.²⁴ Mazrui in the same volume, highlights continuities between colonial and post-colonial wars to evidence the long-lasting costs of wars that have defined Africa and its relationship with the global political economy.²⁵ The reality of disadvantaged contexts becoming further entrenched in unequal patterns for long periods due to the developmental costs of conflict is a point of note. This argument is especially pertinent given the historical disadvantage of the North-East vis-à-vis the national economy in Nigeria and the potential impact of the conflict on reinforcing extant disparities.

The World Bank is clear on how conflict compromises economic growth and stagnates human development indicators.²⁶ Fukuda-Parr et al and Lopez and Wodon note that the short-run economic impact of conflict is especially pronounced in the casualty levels, displacement and destruction of physical capital which can have immediate repercussions on production, trade and output levels.²⁷ Loss of life and displacement have a clear impact on labour and livelihoods and can disrupt domestic and international trade patterns. Ksoll et al find evidence for this in their study on the economic impact of the post-election violence on the Kenyan flower export industry.²⁸ Displacement can also be inimical to economic activity. In her study on Bosnia, Kondylis finds that it can negatively impact on economic outcomes as it increases levels of unemployment and underemployment particularly in contexts with high levels of informality of the economy.²⁹ These dynamics are central to the reflections on the impact of conflict on development at the subnational level with

regard to how displacement impacts on farming households and agricultural production in North-East Nigeria.

At the macro level violent conflict can drive the diversion of financial resources into defence spending and result in disinvestment in hitherto development priorities. Fukuda-Parr et al highlight that spending is diverted from productive activities that drive socioeconomic change in developing contexts. Stewart notes that social spending is not necessarily always impacted negatively while Azam notes that productive investment is undermined.³⁰ This is especially pertinent considering the widespread infrastructural destruction that attends conflict and insecurity. Fukuda-Parr et al allude to how this constitutes a longer-term developmental cost for dominant economic sectors such as agriculture and commerce.³¹ Gupta et al point out that such fiscal adjustment can lead to lower investment and yet higher inflation and reduced growth.³² It is notable that the higher value capital sectors can be at particular risk as a result of conflict. The argument is made that capital-intensive sectors are most undermined as a result of conflict with low technology agriculture presented as war-invulnerable.³³ These points are important in the examination of the conflict impact at the macro level of the economy particularly as regards conflict-induced diversion of public spending.

Analysis is extended to terrorism-affected contexts with economic impacts such as declines in GDP growth and the redirection of investment from the private to the public sector.³⁴ Diaddario argues that armed conflict can undermine economic development by disrupting trade patterns and limiting exports.³⁵ In their study on conflict in the Spanish Basque country, Abadie and Gardeazabal note that insecurity can impact negatively on foreign direct investment (FDI), with implications at both the national and subnational levels depending on contextual factors.³⁶ Lopez and Wodon highlight the risks of reduced foreign investment in lower savings and technology transfer as a result of conflict in the African context.³⁷ This is an important consideration in analysis of the impact of conflict on development at the macro level. This is because of the relatively high degree of trade and FDI integration of Nigeria within the global economy vis-à-vis other African economies owing to reliance on mineral exports.³⁸ The detrimental impact on trade and FDI also emerges as a significant factor at the subnational level given high levels of uncertainty and increased transaction costs.

Violent conflict can have wider economic costs across geographical spaces. This is especially so in Sub-Saharan Africa where national borders are porous as a result of longstanding trade and migration patterns. Lopez and Wodon argue that reduced regional trade can undermine regional growth as a result of negative spillovers from conflict.³⁹ The World Bank found that Tanzania suffered GDP growth losses of 7% as a result of trade losses due to violent conflict in the region.⁴⁰ This study focuses on the country case of Nigeria however reflections on conflict impact at the subnational level of the economy reveal that displacement has consequences for production and trade in the wider Sahel region.⁴¹

The growth of literature on economic costs and consequences of conflict is dominated by methodological approaches that rely exclusively on formal models as a basis for analytical inferences about lines of causality. Cramer has argued that this is a flawed basis for such analyses due to the unreliability of socioeconomic data in the African

context particularly in conflict-affected and fragile contexts.⁴² This literature has tended also to abstract from historical factors as well as the global political economy and how the associated core-periphery dynamic influences the impact of conflict on economic outcomes in the Global South. However, it is necessary to reflect comprehensively on the economic costs of conflicts with all the relevant contextual factors across time to build effective post-conflict peacebuilding interventions.

Fukuda-Parr et al note the immense complexity that attends analyses of the economic and developmental consequences of violent conflict. From a survey of 22 countries in Africa, they highlight that the economic costs can and do vary within national borders.⁴³ They also provide evidence that suggests that while some countries present classical outcomes of conflict such as lower GDP growth levels, some others including Sudan, Chad, Senegal and Ethiopia experienced stable GDP growth over the conflict period. Some factors are noted as underscoring these economic outcomes including the geographical isolation of conflict and the significance of mineral resource bases that appear to be unaffected by insecurity. The reality of the complex and contradictory developmental outcomes that can attend the occurrence of conflict is expounded upon reflection on the impact of conflict in Nigeria across space and time.

The case of Nigeria

Nigeria presents a fertile terrain for interrogating links between violent conflict and development. Its experiences across time have yielded highly contextualised interactions with the economy. In the immediate post-independence period, over 1967-1970, the erstwhile regional government of the Eastern region of Nigeria prosecuted civil war against the Nigerian state in an attempt at secession. This was precipitated by a military coup and a counter coup that resulted from underlying socioeconomic, political and ethnic fissures that had been exacerbated by the dynamics of British colonialism.

The start of the conflict coincided with economic growth levels on a downward spiral to -15.77% in 1967.⁴⁴ However, this progressed at an exponential rate to reach 25% in 1970.⁴⁵ This outcome was linked to the fact that outside of a short period at the start of the war, the Nigerian government maintained control of oil production with foreign support especially from the former colonial power, UK.⁴⁶ As a result even though production fell from 415,000 barrels to 142,000 barrels over 1966-1967 it then increased almost ten-fold to 1,080,000 barrels by 1970.⁴⁷ In the end this capacity expansion alongside major increases in oil prices, proved critical to major gains in state-led industrial, agricultural and social infrastructural investments through the 1970s. In fact Schatz notes that the civil war stimulated industrial production through forced innovations that were due to import restrictions during the conflict.⁴⁸ This outcome is in line with Stewart's assertion on the greater level of economic efficiency that was experienced by some countries in Europe after the Second World War.⁴⁹

Moving to another major conflict in a more contemporary context, the Niger Delta region has been subject to conflict around contestations over ownership and access to the resources, economic losses in agriculture, indigenous exclusion from industrial

activity and environmental damage that is generated from the oil resources located in the region but utilised across Nigeria.⁵⁰ These frustrations found expression in the morphing of civil society responses into insurgency that targeted multinational oil corporations and the Nigerian state.⁵¹

The conflict has had clear ramifications for oil production activities and therein the national economy. The activities of militants, particularly in attacks on oil installations and pipelines, resulted in immense disruptions to Nigeria's oil production. These were estimated to have led to losses of between 25% and 40% of total production and exports between late 2005 and 2009.⁵² The production shutdown coincided with a fall in exports as a proportion of GDP from 43% in 2006 to 30% in 2009.⁵³ Oil production is essential to this outcome because petroleum exports constituted between 90%-96% of merchandise exports over the same period.⁵⁴ This revenue source is highly significant for the Nigerian state that relies heavily on oil resources for public revenue; in 2013, public revenue from oil proceeds stood at 75%.⁵⁵

Returning to this paper's case study, the conflict in North-Eastern Nigeria has been underscored by the actions of the militant Islamist group known widely as Boko Haram against the Nigerian state and wider society with some attention to commercial, ethnic as well as religious targets and gendered implications for affected communities. The group has deployed terror tactics as well as guerrilla warfare towards the Nigerian state that has led also to its occupation of national territory.⁵⁶ The state has also responded with levels of brutality that have at times put civilian populations at great risk and deepened the instability felt by communities.⁵⁷ Boko Haram's stated motivations are best described as a rejection of Western incursions on culture, particularly a form of Islamic culture in the African context.⁵⁸ But the conflict has been linked to root causes in a sense of deprivation that is evidenced by poor human development indicators.⁵⁹ In addition, Mohammed has argued that the state-deployed structural adjustment programmes that heightened poverty and unemployment, especially among young Nigerians, is a key underlying factor in the conflict.⁶⁰

This conflict is emblematic of the times. It reinforces notions of fragility as being on a spectrum where some states appear to be on the brink of collapse with others exhibiting a level of resilience and yet facing immense vulnerability.⁶¹ This latter designation has come to define the Nigerian context since the escalation of the Niger Delta conflict from the mid-2000s to the current crisis in the North since 2009. The actions of Boko Haram are especially pertinent in the post 9/11 global security discourse where violent extremism underscored by fundamentalism along religious lines has fed into an anti-terror frenzy. As such, this conflict along with others in the Sahel and the Middle East are considered especially challenging to global security concerns. The conflict is characterised also by its containment to Northern Nigeria so that while its impact is felt in neighbouring countries including Cameroon and Chad, its reverberation is limited in the wider national context.

Given that the conflict is ongoing there is limited research reflecting on its economic consequences. Eme and Ibieta highlight the costs at the level of the macroeconomy in FDI losses to the tune of 1.33 trillion Naira and prospective FDI inflows.⁶² However, they focus extensively on the economic costs felt within the North-East

region in destruction of infrastructure, intra- African and local trade patterns, loss of life and displacement as undermining labour market dynamics, disruption to local tourism and transport enterprise. Most significantly they draw attention to the conundrum of the coexistence of the conflict with economic dynamism in the South. Oladimeji and Oresanwo focus on the immediate impacts on the rising costs of doing business in affected regions with regard to increased risk and associated insurance costs.⁶³ Osumah echoes this by highlighting the conflict's impact on disruption to foreign and local investment due to both perceived instability and the associated paralysis of support services particularly in air transportation.⁶⁴ This assertion may be linked also to the alleged change in tactic by Boko Haram splinter group, Ansaru, in the kidnappings of foreigners as acts of terror.⁶⁵

Tamba notes the difficulty in computing the economic costs of the conflict as it is ongoing.⁶⁶ Nonetheless he acknowledges the anticipated economic impact in the diversion of public spending from productive investment to defence and security reinforcements, potential decrease in consumption and negative impacts on production.⁶⁷ The most insightful contribution here is on the disruption of intra-regional trade and business enterprise. For Nigeria and Cameroon, the increased border security is likely to reduce trade in goods and services.⁶⁸ In addition, given the insecurity across borders there are delays to regional infrastructural projects such as the Chad-Cameroon railway with likely implications for trade and business patterns.⁶⁹

These papers offer some useful reflections on a highly dynamic subject. As expected the extent of evidence- based examination is limited given the contemporaneous context being addressed. Against this background, this paper progresses this small and growing literature by offering a detailed and evidence-based interrogation of the developmental costs of this conflict driven by a critical analysis of generalised assumptions about the consequences of violent conflict regarding this case study.

Interrogating the developmental impact and indeed causes of conflict is a discourse that is driven by attempts to delineate emergent patterns and enhance generalisable research outcomes. This has led to the widespread use of cross-country studies as an evidence base to bolster the generalisability of research outcomes from classic reflections on conflict and development outcomes to latter focus on terrorism in this regard.⁷⁰ Cramer called for studies that would provide more thorough insights to the nature of the consequence of conflict with specific reference to a broader set of methodological approaches.⁷¹ Special mention is made of case studies as these provide greater specificity given that all wars are not alike in their causes, intensity, spatial spread and institutional characteristics. Serneels and Verporten note also the cross-country results are fragile as these barely consider the particularities of conflict typologies and are biased towards middle and high-income economies due to data availability.⁷² In essence context is everything.

This assertion has informed the paper's focus on the complex context that is Nigeria. Case study analysis allows for a more nuanced interrogation of the realities that have attended violent conflict. This is especially reinforced in the subnational focus on the Boko Haram-led conflict in the North-East. With some attention to the differential impact of conflict at the subnational level, Sandler and Enders assert that more economically diverse economies may exhibit greater resilience.⁷³ Yet until the 2015

decline in petroleum prices the resource-dependent Nigerian economy bucked this trend. It exhibited high growth rates driven by its dominant petroleum sector directly and indirectly through the buoyancy of related service sectors including finance. There has been extensive focus on interactions between conflict, entrenched poverty and reduced growth based on the methodological analysis that focuses on the individual as the referent object. Comprehending the impact of conflict in Nigeria must be cognisant of the complex social dynamics that determine, to an extent, the experiences of individuals in particular contexts. Development outcomes vary widely across Nigeria and have done so especially across the geographic divide of North and South. As such the economic developmental impact of conflict is reliant on established intra-national development patterns.

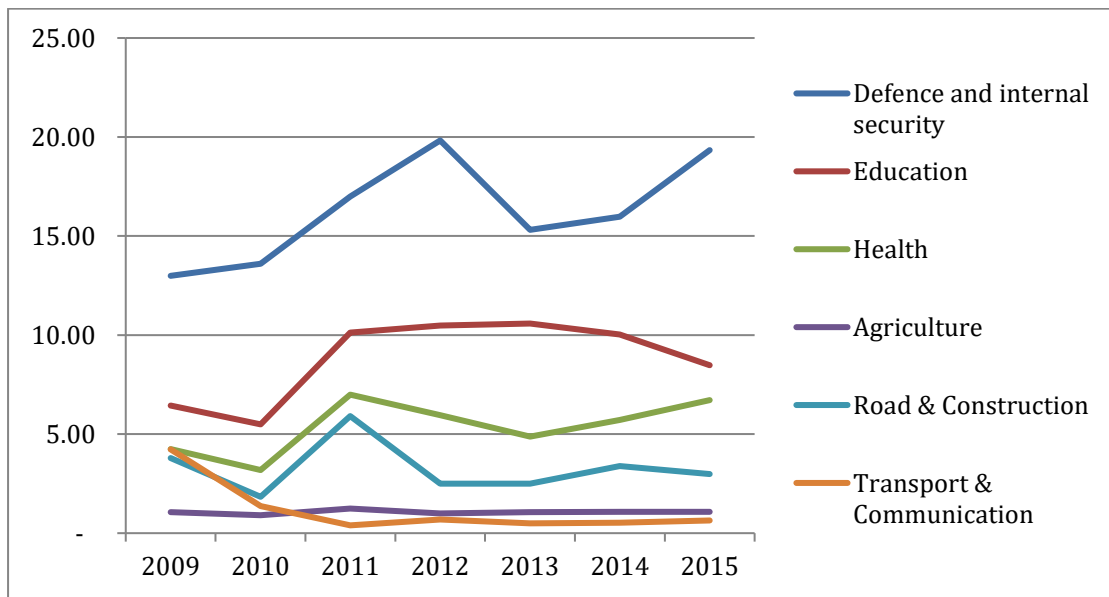
Against this background the next section engages critically with generalised assumptions on the developmental consequences of conflict in relation to the national economy in Nigeria. However it does so cognisant of the noted complexities, especially the influence of dynamics within the global economy. As shall be seen the analysis reveals that in many respects the economic impact of the conflict has been isolated to the North with limited incursions on the macro economy. This outcome is informed also by the degree of integration of the economy at the macro level with the global sphere vis-à-vis the subnational sphere. The disparate effect of insecurity at these levels is an important consideration given that it is potentially influential to the relevant approaches to post-conflict reconstruction.

The macro level economic impact of the conflict in North-East Nigeria

This section examines the Nigeria case to consider classical arguments on the economic developmental costs of conflict to FDI flows, economic growth, fiscal adjustment, trade flows and sectoral dynamics. It examines development indicators at the aggregate national level against the intensification of the conflict in North-Eastern Nigeria.

Analyses of the impact of conflict on the macroeconomy have focused on the diversion of productive investment from developmental concerns such as infrastructural investment to shorter-term priorities such as defence spending. Adebakin et al show that the exponential increases in public expenditure on defence and security displace public expenditure on human development budgetary components including health, education and agriculture.⁷⁴ It is challenging to assess security expenditure towards addressing the Boko Haram-induced violence. In Figures 1 and 2, focus is on budgetary spending for defence and internal security but this underreports the comprehensive public expenditure in this sphere. For instance, the stated budget allocation neither covers comprehensively related expenditure from the Office of the National Security Advisor within the Presidency nor the Joint Multinational Task Force, a regional body that comprises forces from Cameroon, Niger, Benin, Chad and Nigeria, operating under the auspices of the Lake Chad Basin Commission with support from the African Union.⁷⁵ Yet in 2015, former National Security Adviser Colonel Dasuki received extra-budgetary funds of 2 billionn USD for arms procurement for the military to address the Boko Haram-led insurgency.⁷⁶

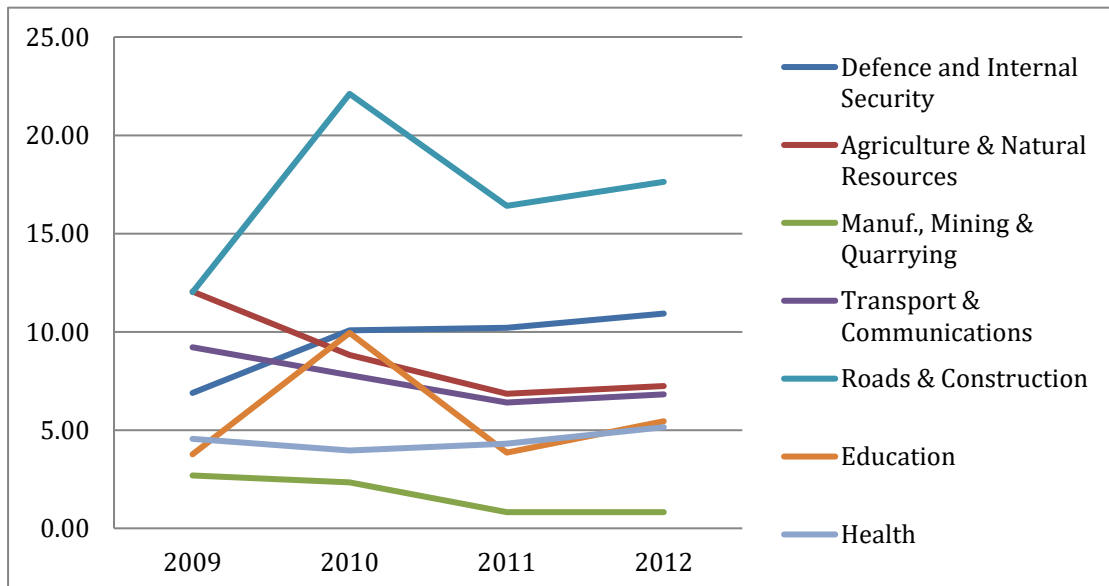
Figure 1-Recurrent expenditure as a proportion of total recurrent expenditure %



Source: Central Bank of Nigeria Statistical Yearbook 2015

Defence and internal security expenditure rose from about 13% to 20% from 2009 to 2012 then declined to 15% in 2013 before a renewed rise until 2015. The rising trend is in line with classic expectations on security related spending.

Figure 2- Capital expenditure as a proportion of total capital expenditure %



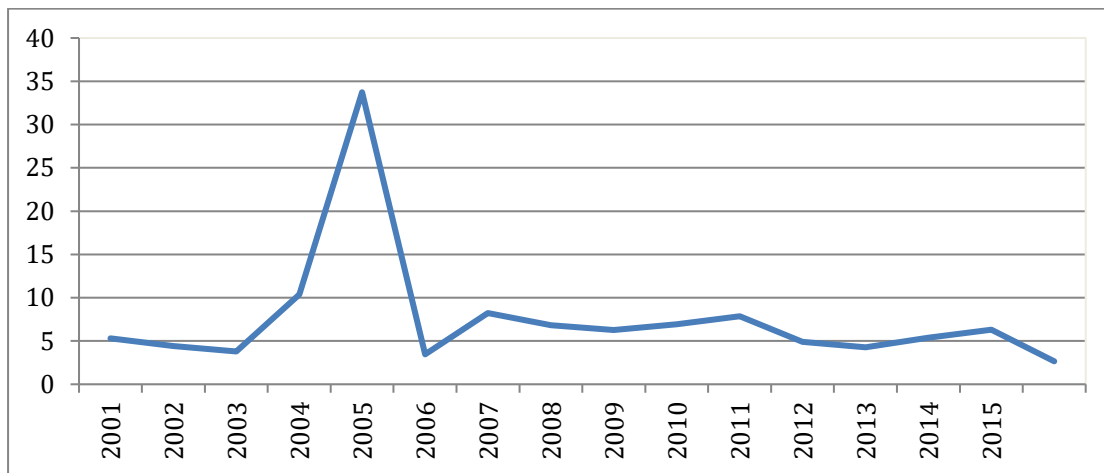
Source: Central Bank of Nigeria Government Finance Statistics

Arguments about the crowding effect of increased security spending relate to public investment which is best reflected by capital expenditure in Figure 2. From here defence and security expenditure rose by about 3% to 10% in 2010 before continuing on a rising trend. In contrast public investment in productive sectors, agriculture, manufacturing, mining and quarrying as well as transport and communications have declined over 2009-2015. For agriculture, transport and communications the declines in capital expenditure exceed those of recurrent expenditure. This supports the argument by Gupta et al in that fiscal adjustments of this nature will lead to lower investment.⁷⁷

However, capital expenditure on roads and construction has increased exponentially. Because of the absence of a system of building and construction statistics in Nigeria it is challenging to undertake a robust analysis of this outcome.⁷⁸ Nonetheless, linkages have been made between Nigeria's, until recently, buoyant growth rate, ascending oil prices and FDI net inflows, especially from emerging economies, and growth of expenditure in the construction sector in patterns mirroring Middle Eastern oil producers.⁷⁹ The public sector and therein public capital expenditure is a central driver of the subsector because of limited indigenous private capital capacity for large scale construction projects.⁸⁰ This outcome reveals the limited impact of the conflict on the construction subsector at the national level of the economy.

Stewart has argued that security expenditure can be expected to rise in conflict contexts alongside a decline in social and economic spending and especially so on capital.⁸¹ It is difficult to be certain about the extent of correlation between the increased investment in security vis-à-vis reduced investment in the productive and social sectors. However, the expenditure in social infrastructure, education, follows a similar pattern to security expenditure. Health is largely static with a slight increase later. Stewart has shown also that increased security expenditure does not always displace expenditure in social infrastructure, particularly in wealthier economies that exhibit increased spending on security.⁸² The decline in investment in the productive sectors is of particular significance given the extensive damage in these spheres that has resulted from the conflict.⁸³

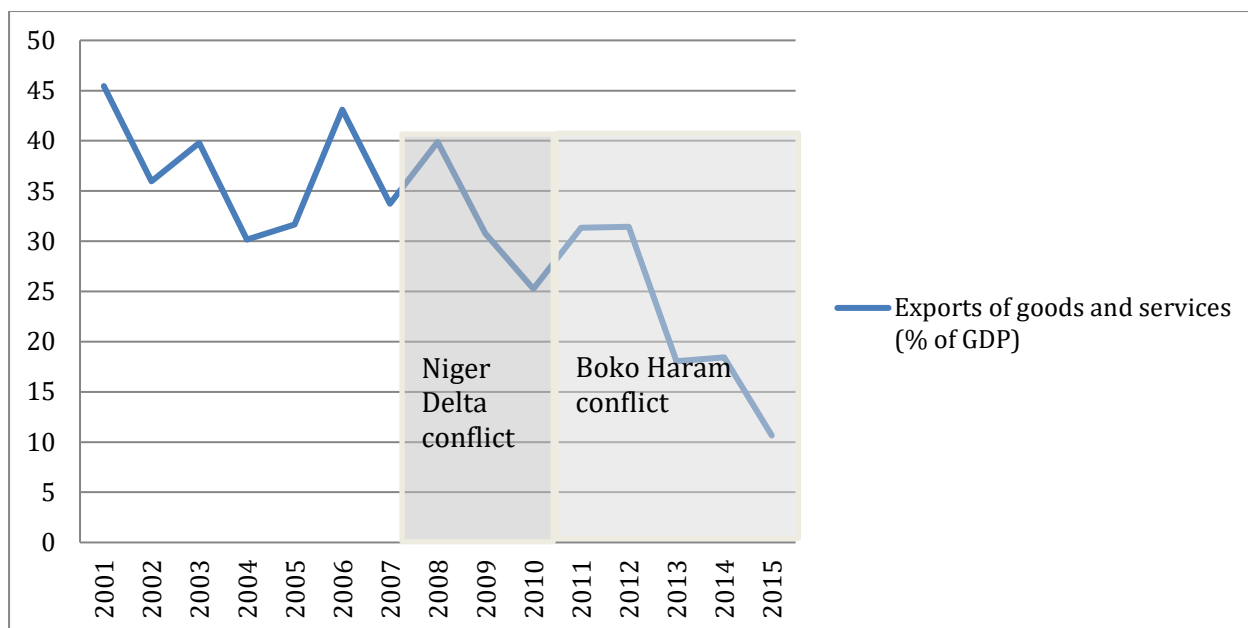
Figure 3- Annual GDP Growth in Nigeria %



Source: World Bank World Development Indicators 2016

Debates on the developmental costs of conflict at the level of the macro economy point to a negative impact on aggregate production.⁸⁴ In 2014 the then Finance Minister, Dr Okonjo Iweala suggested an expected decline to GDP growth as a result of the Boko Haram insurgency.⁸⁵ However, the Deputy Governor of Nigeria's Central Bank, reported that macroeconomic policy, including monetary policy, was unaffected by the conflict.⁸⁶ GDP growth was on a downward trend over 2011 to 2013 from 7.8% to 4 % before recovering to 6.3% in 2015 (see Figure 3). The downward trend has been described as reflective of the longstanding challenges of the dilapidated state of infrastructure and the reliance on the oil sector.⁸⁷ While neither of these outcomes was helped by the destruction of sparse infrastructure or agricultural activity in the North-East, it has been difficult to reduce them to resulting directly from the conflict. Rather a more significant link is put forward in the global financial crisis of 2008 through reduced capital flows and fall in petroleum demand.⁸⁸ In fact the modest recovery in growth between 2013 and 2014 accompanied the intensification of the conflict. Furthermore, decline in GDP growth to 2.7% post-2015 coincided with major advances by the military and recovery of territory from the Boko Haram insurgents.⁸⁹

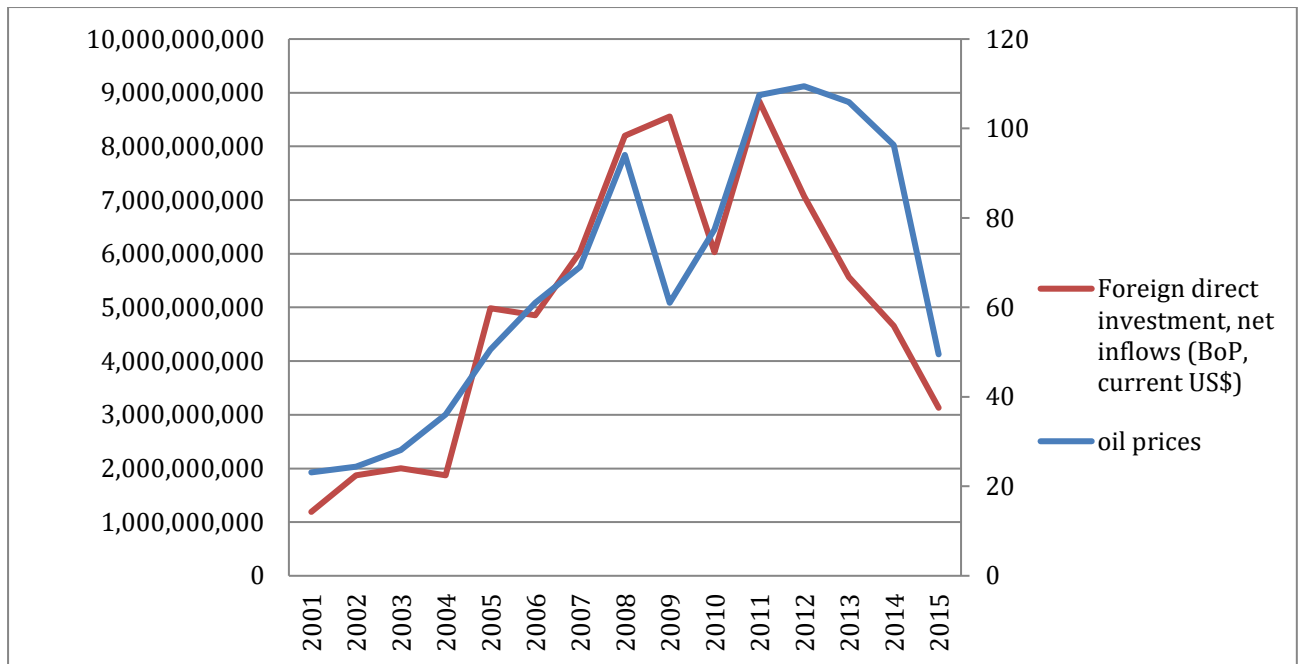
Figure 4- Exports of goods and services as % of GDP



Source: World Bank World Development Indicators 2016

Violent conflict is expected to destabilise trade indicators and this is seen as most pronounced in export volumes and growth. The underlying mechanisms for this outcome include the diversion of inputs towards security needs as well as disruption of labour and production activities and therein available supply for export.⁹⁰ Export performance in Nigeria has been on a declining trend that has indeed deepened since the intensification of the conflict (See Figure 4). In addition, agricultural exports have declined as a proportion of merchandise exports.⁹¹ This could be considered as significant given the sectoral decline in capital expenditure that coincided with increased security spending discussed earlier. Nonetheless the reality of the negligible agricultural exports base in Nigeria suggests that movements in export flows are not linked decisively to challenges within the agricultural sector.⁹²

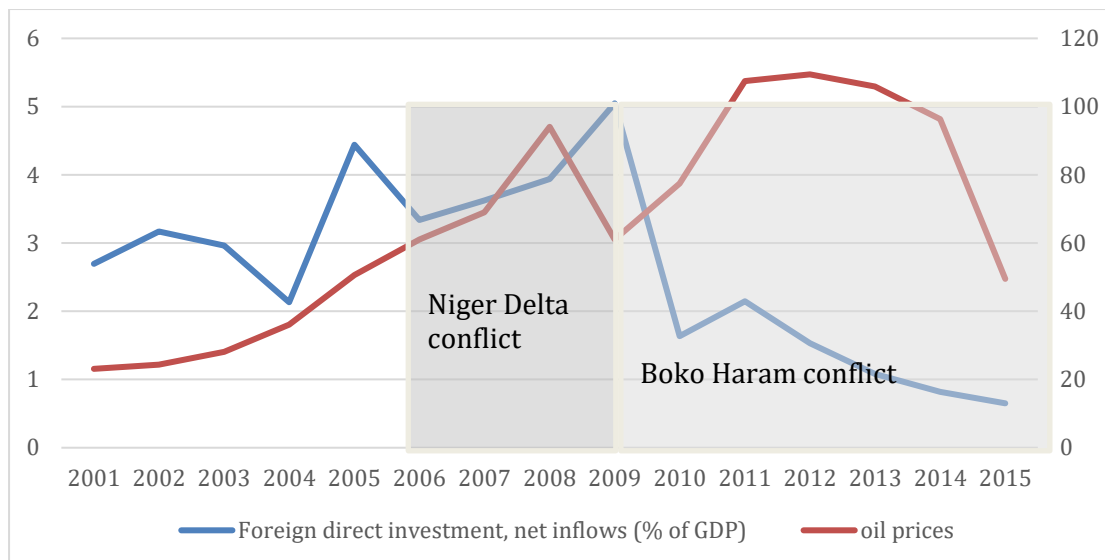
Figure 5 -Oil prices and FDI net inflows (BoP, current USD)



Source: World Bank World Development Indicators 2016 and OPEC Basket Prices

FDI net inflows in Nigeria have been on a declining trend since 2009. As noted earlier, insecurity and resulting economic instability have been cited as causal factors driving decline in investment flows. This argument has also been proffered with regard to Nigeria.⁹³ As the conflict has progressed, FDI net inflows have fallen from highs of 8.8bn USD in 2011 to just over 3bn USD in 2015 as FDI as a proportion of GDP declined steeply from 5% in 2009 to under 2% in 2010 (See Figures 5 and 6). This suggests a negative impact of the conflict on the inflow of foreign investment given the precipitous declining trend.

Figure 6 -Oil prices and FDI net inflows as a proportion of GDP %



Source: World Bank World Development Indicators 2016 and OPEC Basket Prices

While the negative impact of the conflict is a feasible argument other factors compound assumptions about causality. For instance, the global financial crisis has also been linked to a fall in FDI as a proportion of GDP. Its impact has been felt extensively in Nigeria as well as across Africa.⁹⁴ The immediate aftermath of the global crisis coincides with an initial dip in FDI as a proportion of GDP from 2009 (See Figure 6). Even with these challenges Nigeria has remained a primary destination for FDI in Africa in spite of the conflict.⁹⁵

Another point of note is that FDI in Nigeria is dominated by the petroleum sector and thus associated factors including oil prices and investment decisions of oil majors have also influenced flows. Initial recovery in FDI net inflows from 2010 to 2012 corresponds to gains in oil prices over the same period from 77 USD to 109 USD (See Figure 5). The subsequent declines in FDI net inflows correlates with movements in oil prices and the consequent volatility in the Naira. FDI movements have been influenced also by production challenges in the Niger Delta. In an emerging pattern of transition a consortium of foreign oil majors divested a bulk of onshore interests valued at 5 billion USD to largely indigenous private capital in 2014 as a result of longstanding oil bunkering activities, conflict and security concerns in the Niger Delta.⁹⁶ These realities problematise narrow conclusions based on linear readings of the multifaceted dynamics. While the conflict in the North-East may have hampered investor confidence it by no means presents a certain line of causality.

The evidence suggests that movements in the global economy have had a more fundamental developmental impact on the economy at the national level than the conflict in the North-East. This is quite unlike the impact of the insurgency in the Niger Delta region given that the oil producing region is at the centre of Nigeria's interconnectedness to the international sphere. A key factor for this seeming localised impact is potentially the limited integration of production and output at subnational level of the economy with the wider Nigerian economy vis-à-vis the global economy. Against this background, the next section considers the developmental impact of the conflict at the subnational level with reference to North-Eastern Nigeria.

The economic impact of the conflict on North-East Nigeria

This section considers the dynamics that have shaped the developmental consequences of the conflict within the North-East. Fukuda-Parr et al show that violent conflict can have differential impacts at the national and subnational levels.⁹⁷ As such it is important to consider the disaggregated effects of violent conflict. Stewart proposes that indeed one of the challenges of comprehending the costs of violent conflict in disadvantaged contexts is the isolation of initial conditions that predate instability.⁹⁸ This is pertinent particularly for North-East Nigeria.

Understanding the context: Initial conditions in the North-East

Conflict affected North-East Nigeria comprises: Adamawa, Bauchi, Borno, Gombe, Taraba and Yobe states although Adamawa, Borno and Yobe are considered the worst affected.⁹⁹ Northern Nigeria suffers higher poverty across a range of measurement modes. North-East Nigeria has very high rates of poverty averaging 70% as against the national average of 61% (see Table 1). High poverty and inequality, especially across the North-South divide have been considered triggers for the conflict.¹⁰⁰ The substantially lower rates of GDP per capita as well as higher levels of poverty vis-à-vis the national averages evidence this reality (See Table 1).

[Table 1: Socio economic indicators for North-East Nigeria](#)

	GDP (PPP) Billions USD 2007	GDP per capita USD 2007	Unemployment rate 2011 (%)	Dollar per day based on an adjusted PPP Poor (%) 2010
Adamawa	4.6	1,417	33.8	74.3
Bauchi	4.7	983	41.4	73.1
Borno	5.2	1,214	29.1	55.1
Gombe	2.5	1,036	38.7	74.2
Taraba	3.4	1,446	12.7	68.9
Yobe	2.0	843	35.6	74.1
Nigeria	627.9	1,822	23.9	61.2

Source: Nigeria Data Portal (2017); NBS (2012);¹⁰¹ World Bank World Development Indicators (2017)

Indeed, considerations of horizontal inequality vis-à-vis the North-South divide are central to understanding the conflict context, but so is vertical inequality. Across Nigeria, inequality within-state is higher than the national average of .447 (2010) in only six out of 36 states, including both Taraba and Yobe states.¹⁰² These states had the highest increases in inequality from 2004 to 2010. High levels of inequality in the region have historical rooting in colonial structures that served to privilege the aristocracy in terms of access to formal education and political power.¹⁰³ These have also been cited as a conflict trigger with former Boko Haram leader, Mohammed Yusuf,

criticising the ‘conspicuous consumption and opulence of the Western educated elite’ amidst abject poverty.¹⁰⁴ The concentration of the economic impact of the conflict in rural and agriculturally active areas is also an important dimension to consider. In Nigeria, rural poverty levels far exceed urban poverty levels at 52.1 % vis-à-vis 34.1% (2010).¹⁰⁵ Such substantial levels of poverty are telling of the effects of reduced economic activity to the material welfare of those affected.

In the North-East, male employment is dominated by agriculture followed by commerce while the pattern is reversed for female employment.¹⁰⁶ The Presidential Initiative on the North-East (PINE) presents agricultural employment as prevalent and constituting up to 80% of total employment in the pre-conflict period.¹⁰⁷ The extent of employment vulnerability in the region is broad. Unemployment rates in North-East Nigeria are some of the highest nationally for Adamawa, Bauchi, Borno, Gombe, Taraba and Yobe States averaging 31.8% especially when considered against the national average of 23.9% (See Table 1).¹⁰⁸ This is an important factor that speaks to the troubled conditions within the region. According to Nigerian Institute of Social and Economic Research (NISER), youth unemployment in largely rural areas, as is much of the North-East, rose from 47.6% to 53.2% from 2010 to 2012.¹⁰⁹ Given the demographic of the main participants in the conflict these data are significant for comprehending the context of the upheavals.

The final point of note is on the perceived economic contribution of the region to the national economy. Table 1 shows that the North-East, which comprises six out of 36 states, constitutes 3.5% of the total GDP of the Nigerian economy. As has been seen, the economic impact of the conflict to the wider Nigeria is not defined solely by contribution in this regard. Yet, it is necessary to reflect on the urgency or lack thereof that has attended its resolution due to its relative containment to the region both spatially and socioeconomically. The public expenditure response of the Nigerian state to the conflict beyond movements in defence spending are delineable from the budget allocation to PINE. In 2017, budget allocation to PINE stood at 45 billion Naira of a total budget of 7.4 trillion Naira as compared to 175.7 billion Naira covering allocations to the Federal Ministry of The Niger Delta, Presidential Amnesty Programme and the Niger Delta Development Commission to the economically essential Niger Delta region.¹¹⁰ However, it is important to note that the Niger Delta is considered to have suffered longstanding neglect by the state until the 2000s.

Pre-conflict North-Eastern Nigeria is characterised by agriculture and commerce.¹¹¹ The region is largely rural with 75% arable land supporting agriculture defined by crop production and to a lesser extent animal husbandry.¹¹² Both cash crops and food crops are produced in a wide range that includes millet, sorghum, cowpeas, rice, sugarcane, cotton, groundnuts, gum Arabic and ginger.¹¹³ There is some potential for irrigation due to proximity to rivers and swampy areas that are resourced by Lake Chad.¹¹⁴ Animal husbandry is dominated by pastoralist communities with Fulani herdsmen rearing cattle alongside poultry production which is limited to urban and peri-urban settings.¹¹⁵ Agricultural production is a main link between the regional economy and the wider Nigerian economy. First, it is a source of agricultural exports both within Africa (to the Sahel) and to Asia, Europe and the United States.¹¹⁶ Second, it is a major source of food to the rest of the Nigerian economy. In particular, grain, pulses, cotton, groundnuts, poultry and cattle are traded from the North to the South of Nigeria.¹¹⁷

There are extended and interrelated economic, social and geographical factors that influence the realities of agriculture in the region. First, there is limited access to significant inputs such as fertilisers regardless of price levels as well as storage capacities for smoothing out production surpluses and gluts.¹¹⁸ Second, market conditions such as access to global markets have influenced negatively production of certain cash crops including groundnuts and cotton in the region.¹¹⁹ Third, as mentioned earlier in the paper, climate variability can limit crop production. This is especially prominent in the extreme North-East, i.e. Borno and Yobe States due to desertification and low rainfall in the absence of irrigation.¹²⁰ Fourth, the interaction between sedentary farmers and pastoralists is driven by longstanding contestations that have arisen around land access, use and ownership patterns. These agitations have manifested along ethno-religious lines across Northern Nigeria and are exacerbated by drought and have been therein linked to climate variability within the Sahel.¹²¹ However tensions between settler and pastoralist communities in 2016-2017 have been connected also directly to the activities of Boko Haram. Notably, the conflict is seen as limiting available grazing lands (due to increased risks of cattle theft) in the North that forces migration further southwards.¹²²

Commerce and trade are significant economic activities in the region. These are linked in part to the national and international trade of agricultural goods. The region has been an international and national trading hub with its notable cattle and grains market in Potiskum, Yobe state and the Monday Market and Baga Market in Borno State.¹²³ These activities are significant also for the wider Sahel region. For instance, imports and exports from the wider Sahel play an important role in mitigating agricultural production disruptions.¹²⁴ Petty trade has been important for livelihoods as well as being a form of pluriactivity and source of non-farm income for agricultural households.¹²⁵ There is substantial reliance also on commerce and trade, especially petty trading (often casual and highly vulnerable) in peri-urban settings with a strong presence of women.¹²⁶

As with agricultural production, broader factors influence the operation of commerce and trade across Nigeria including in the North-East. Porter et al have shown how trade and commerce can constitute a source of instability due to underlying social tensions such as those across ethnic lines in Northern Nigeria.¹²⁷ Yet they underscore the complexity that characterises this setting by highlighting the resilience of group dynamics in communities that can counter such issues. These include supportive relationships between cattle dealers in Northern and South-West Nigeria as well as between Northern and Southern traders in Northern markets during heightened ethno-religious tensions.¹²⁸

Examining the impact of conflict on North-East Nigeria on agriculture and commerce

This section analyses the impact of conflict on the agricultural sector, trade and commercial activities since the conflict, especially following its escalation from 2014. Stewart et al argue that disruption to the agricultural sector in conflict occurs particularly where displacement affects labour activities.¹²⁹ More than 80% of the rural North-East relies on agricultural production and its economy is defined by the agricultural sector.¹³⁰ As of January 2017 UNOCHA reported the displacement of 1.8 million people from the North-East with over 200,000 people in neighbouring countries including Niger, Cameroon and Chad.¹³¹ The vast majority of displacement due to the

conflict occurred in 2014. Estimates suggest that up to 6000 farming households have been displaced as a result of the conflict.¹³² Alongside widespread destruction of physical and social infrastructure, conflict-related displacement is noted as diminishing cultivation, driving food scarcity and decreased functioning of markets thus leading to escalating food prices.¹³³

The conflict has limited access to significant farm inputs as well as farmlands. An emerging challenge is the suspected use of land mines. Evidence suggests that there have been disruptions to agricultural activities in Southern Borno due to the fear of the presence of land mines.¹³⁴ FAO report a 'lack of access to seeds, farming tools, land and water among other factors.'¹³⁵ They note also damage to agricultural systems in both the formal and informal seed systems in the North-East. There is disruption to production patterns especially of staple and cash crops due to interruption of seasonal agricultural practices. As producing communities are unable to cultivate and harvest as required there is longstanding damage to farms that undermines agriculture-reliant economies.¹³⁶ It is necessary to note that other factors impact on production outcomes in this region not least those relating to climate variability including floods, dry spells and pests.¹³⁷

In 2016 production of staple foods and cash crops were notably below average in two of the worst affected states, Borno and Yobe, alongside reduced access to pasture for livestock.¹³⁸ This has wider implications for the functioning of agricultural markets. Because of low production levels, stocks are drawn down more rapidly thus placing inflationary pressures on prices. This is evidenced by high and rapidly increasing prices for staples such as cowpeas, maize and sorghum over 2014 and 2015.¹³⁹ These are compounded by macro-economic factors in the depreciation of the Naira that has made food imports more expensive in addition to trade flow challenges due to heightened insecurity.¹⁴⁰ The risks associated with diminished agricultural production activities has implications also for food security in the region. Sikod has been vocal on the dire consequences of conflict on food security in Africa.¹⁴¹ Since 2016, reduced production is noted as intensifying famine risk across the North-East.¹⁴² The FAO notes that 5.1 million people face severe risks to food security as a result of challenges to agricultural production.¹⁴³

Luckham et al propose that the following factors are some of the most salient that shed light on the economic costs of conflict at the subnational level: increased uncertainty, increased transaction costs and receding of formal economic spaces.¹⁴⁴ Heightened levels of insecurity have been disruptive to trade flows and led especially to increases in transaction costs within the region and intra-nationally. They have also raised the risks of retreat of financial activities into less formal spaces and led to the exit of foreign investment due to uncertainty. This is in line with arguments proffered by Oladimeji and Oresanwo on the rising costs of doing business in affected regions and Osumah on disruption to foreign and local investment due to both perceived instability and the associated paralysis of support services.¹⁴⁵

Trade in agricultural products, the mainstay of this region, has declined as a result of insecurity. Key food markets in North-East Nigeria, including Yola, Maiduguri, Damaturu, Potiskum and Mubi were functioning at about half of normal capacity with

most semi-urban markets not operational at all due to security threats in 2014.¹⁴⁶ There has been a level of recovery in 2016 with markets in parts of Adamawa and Gombe returning to usual performance levels. However, many in Mubi and Yola, report continuing challenges following the departure of Boko Haram due to increased transaction costs from the state security apparatus through road checkpoints and associated payments.¹⁴⁷ This supports Tamba's argument on how increased state security provision can undermine trade.¹⁴⁸ Higher transaction costs have arisen also from the imposition of taxes on local farmers by Boko Haram in and around areas under their control.¹⁴⁹

Trade routes between the North-East and the South of Nigeria are severely disrupted as transportation is now largely diverted through the North West.¹⁵⁰ Transport channels in and out of the North-East are either destroyed or highly insecure, leading to drops in trade-related traffic and major rises in transport costs to the region. For instance, until 2012 the average transport costs from Lagos to Maiduguri stood at N4000, but this increased to over N8000 from 2014 as Boko Haram attacks intensified. Furthermore, since 2014 only a small number of transporters continued to use the route.¹⁵¹ These realities have contributed to food price hikes in Southern Nigeria.¹⁵² Beyond this the trade volumes are at far lower quantities, approximately half, of what would normally be expected.¹⁵³ Hence, destruction of transport infrastructure has increased transaction costs with implications for the wider economy in food price hikes.

There has been disruption in the organised private sector resulting from the conflict. Insecurity has driven increased armed robberies and forced extortions from local businesses to support Boko Haram.¹⁵⁴ This has had an impact on commercial services. Addison et al highlight the high-risk exposure faced by financial services in conflict.¹⁵⁵ These have been disrupted extensively thus undermining other commercial activities. Banking systems and infrastructure have been destroyed in Adamawa state therefore limiting cash-relevant transactions.¹⁵⁶ More widely, providers have necessarily altered the hours of service in response to concerns around security of staff and clientele in the region further diminishing service provision.¹⁵⁷ These developments can potentially shift financially-related activities from the formal into the informal sphere.

Small to medium sized enterprises have suffered with out-migration of businesspersons with implications for formal sector enterprise due to heightened uncertainty. This exodus has been linked to the relocation of long established foreign capital investments to the capital city of Abuja.¹⁵⁸ Abadie and Gardeazabal have indeed argued that FDI can be impacted by insecurity in ways that are defined by contextual realities.¹⁵⁹ The North-East presents a particular situation where the impact of the conflict on displacement, destruction of infrastructure, reduced access to agricultural inputs, uncertainty, transaction costs and receding formal spaces is contained to the region. This places potentially a much-disenfranchised region in greater disadvantage to the rest of the country.

Conclusions

Examining the economic consequences of conflict in the North-East is a complex endeavor due to the intricate and interlinked ways in which various factors influence

developmental processes and outcomes. This is compounded by the limitations in the available data both in terms of their coverage of relevant indicators and quality as well as the contemporaneity of the conflict. Nonetheless, preliminary reflections suggest a dichotomy in terms of the effect of the conflict at the levels of the national and subnational economy.

In general, at the national level, the consequences of the conflict on the economy are less directly delineated. Critically interconnected movements in the global economy appear to have a major influence on developmental outcomes. To some extent, oil price declines as well as the 2008 global economic crisis show a negative relationship with FDI flows. It is a similar dynamic for GDP growth. Rather perversely, periods of military progress against the insurgency have accompanied declines in growth since 2015. Because of the dominance of the mineral subsector in merchandise exports, oil price movements alongside production disruptions in the Niger Delta are likely to have been especially critical for the downturn in exports as a proportion of GDP.

However on fiscal adjustments there have been drastic changes in the pattern of public expenditure immediately following the 2009 intensification of the conflict that have indeed coincided with reduced public capital spending in productive sectors of the economy including agriculture, transport and communications as well as manufacturing and mining. Expenditure on construction as well as education has bucked the trend in a pattern that reinforces the dichotomy of conflict impact at the subnational and national levels of the economy, in the case of the former. On education, evidence confirms the argument that social spending does not necessarily decline as a result of conflict even with the rise in security-related spending.

Considering the consequences of conflict in the subnational context, is an even more complex endeavor. This is due to the exacerbation of the earlier cited challenges within a conflict-affected context as the process of data collation and analysis is complicated by security concerns, wider variations in approaches given the range of actors as well as a high degree of politicisation. Nonetheless reflections on data from primary and secondary sources paint a bleaker picture at the subnational level of the economy.

There has been widespread disruption in the main economic activities in the region: agriculture, commerce and trade. Agricultural production is in decline with dire consequences for food prices, food security and agricultural livelihoods. This is linked to the displacement of labour, the destruction of agricultural infrastructure and input systems, diminished access to land and farm equipment. These outcomes negate Collier's argument of the invulnerability of low-technology agriculture. It is essential to note that the challenges faced by the agricultural sector are not necessarily an aberration of the status quo but potentially an exacerbation of extant challenges. This applies also to the ways in which climate variability reinforces these outcomes both in crop production through floods and dry spells and animal husbandry through diminished access to pasture and water.

Commerce and trade have been affected negatively by insecurity through disrupted trade flows, increases in transaction costs, risks to formal sector financial activities and outflow of investment due to uncertainty. Trade, especially in agriculture, has been impacted by the conflict through the destruction of institutions as well as

transport routes. It has underscored increased transaction costs in the requisition of taxes and tribute from producers by Boko Haram, increased transport costs and diminished trade levels. This has had a direct impact on rising food prices in the region and beyond. Commercial activities have been challenged by insecurity through uncertainty that has forced FDI divestments from the region. There has also been high risk exposure to financial services that have served to limit access to consumers and risk a retreat of associated activities to less formal spaces.

It is possible to highlight interconnections between the national and subnational levels of the economy in terms of the consequences of the conflict. The limited evidence that is available suggests interlinkages on FDI, in that the reported divestments from the North-East have remained in the national economy by shifting operations to other major Nigerian cities. As such bar relevant transaction costs, the conflict has underscored an outward shift of resources from the subnational sphere that remains relevant to the national picture. On food security the instability at the level of the national economy in terms of declining oil prices and the consequent depreciation of the Naira has reduced the competitiveness of food imports, which has undermined food availability given food production challenges. Significantly, the prospect of famine is likely to impact on public expenditure and thus influence fiscal dynamics at the strategic national level. Reconstruction of the agricultural sector, with cognisance of climate variability impacts, will draw on federally allocated resources as delineated in the Agricultural Revitalization Master Plan of PINE. A final point of note is that production and trade disruptions in the North-East are affecting food prices in the South of Nigeria. This outcome reflects the degree of reliance of the South on local food supply given the reduced competitiveness of food imports across Nigeria as a result of the depreciation of the Naira.

In presenting this original analysis of the developmental consequences of the ongoing Boko Haram-led violent insurgency it has been possible to reflect robustly on the complexities that attend the conflict-development trajectory. Focus has been innovatively on the extent to which the conflict has influenced dynamics at the levels of the national and subnational economy. Evidence suggests a high degree of containment of the repercussions of the conflict at the subnational level, indeed at the national level the economy exhibits a greater degree of integration with the global economy. Nonetheless interlinkages between the national and subnational spheres have been identified. This interrogation also shows that generalised assumptions about the ways through which conflict affects development hold in some regards. This is clearly the case with fiscal adjustments, disruption of trade flows and agricultural production as well as commerce but less with economic growth and FDI flows at the macro level. The value of the case study approach has been reinforced in the deployment of this study. Along the conflict-development trajectory, it has highlighted the complexities associated with the interrelatedness among variables across international, national and subnational spaces.

Word count: 9,584

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